

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings assigns Baa3 rating to NHPC; outlook stable**

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24 Apr 2024

Singapore, April 24, 2024 -- Moody's Ratings (Moody's) has assigned Baa3 issuer ratings and ba1 Baseline Credit Assessment (BCA) to NHPC Limited.

The outlook is stable.

#### RATINGS RATIONALE

NHPC's Baa3 rating reflects its BCA of ba1, the high level of extraordinary support from, and the company's very high level of dependence on, the Government of India (Baa3 stable) under Moody's Joint Default Analysis (JDA) approach for government-related issuers (GRIs).

"NHPC's BCA reflects the company's strong competitive position, the favorable policy and regulatory environment for India's hydropower sector," says Abhishek Tyagi, a Moody's Vice President and Senior Credit Officer.

"The BCA also incorporates the implementation risk associated with the company's large and complex capital spending program and its high financial leverage, which constrains its BCA," adds Tyagi.

Moody's expects NHPC's interest coverage, as measured by (CFO pre-WC + interest)/interest, to be in the range of 2.0x-3.0x and its financial leverage, as measured by CFO pre-WC/debt, to trend down to the range of 6%- 9% over next 12-36 months. Nonetheless, these credit metrics will continue to support its BCA.

NHPC is India's largest hydropower generator and has a long track record of developing hydropower projects. It is also one of India's lowest-cost electricity producers, which underpins its strong competitive position in the industry.

NHPC is a beneficiary of ongoing supportive policy from the Government of India. Since the establishment of the Payment Security Scheme more than 20 years ago, the company has enjoyed a good track record of payments from state-owned

distribution companies despite their weak finances. The Payment Security Mechanism is based on tripartite agreements between the central government, state governments and the Reserve Bank of India, and these agreements ensure payments to NHPC in the event of default by state-owned distribution companies. The government also provides support to NHPC in resettlement and rehabilitation activities, land acquisitions and law and order issues, as well as and financial support in the form of soft loans.

Moody's assessment of extraordinary government support, if required, for the company is "High", under its JDA for GRIs. In particular, the government has a 67.4% ownership stake in NHPC and therefore closely directs its activities. The government also has a strong track record of providing support, evidenced by its past actions including (1) a one-time settlement scheme in 2003 that led to the settlement of all past dues of state-owned distribution companies; (2) extending soft loans to NHPC for certain strategic projects; and (3) its establishment of the Payment Security Mechanism to take care of receivables from state-owned distribution companies.

The stable rating outlook reflects Moody's expectation that NHPC will continue to generate relatively predictable cash flow in its regulated power business despite the large planned capital expenditure programme.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

##### FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

Moody's could upgrade NHPC's ratings if India's sovereign rating is upgraded and its standalone credit profile does not deteriorate.

##### FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

Downward pressure on the BCA would emerge if unfavorable regulatory developments, such as tariff reductions, strain the company's financial position. NHPC's BCA would also come under strain if its cash flow from operations pre-working capital (CFO pre-WC)/debt declines below 4% on a consistent basis. However, the rating will remain resilient to a deterioration in the BCA.

Moody's could also downgrade NHPC's ratings if India's sovereign rating is downgraded.

#### METHODOLOGY

The methodologies used in these ratings were Regulated Electric and Gas Utilities published in June 2017 and available at <https://ratings.moodys.com/rmc-documents/68547>, and Government-Related Issuers methodology published in January 2024 and available at <https://ratings.moodys.com/rmc-documents/406502>. Alternatively, please see the Rating Methodologies page on

<https://ratings.moodys.com> for a copy of these methodologies.

## ISSUER PROFILE

NHPC Limited was established in 1975 and is India's largest hydropower generation company with an installed capacity of 7,097 megawatts (MW), including 6,971 MW from 22 operational hydro projects and 126 MW from solar and wind projects. The company is presently engaged in the construction of nine hydro projects with a total of 9,314 MW in capacity and six solar projects with total capacity of 1,135 MW. As of the end of March 2024, the Indian government owns a stake of around 67.4% in NHPC.

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Abhishek Tyagi  
VP - Senior Credit Officer  
Project & Infrastructure Finance  
Moody's Investors Service Singapore Pte. Ltd.  
71 Robinson Road #05-01/02  
Singapore, 068895  
Singapore  
JOURNALISTS: 852 3758 1350  
Client Service: 852 3551 3077

Ray Tay  
Senior Vice President/Manager  
Project & Infrastructure Finance  
JOURNALISTS: 852 3758 1350  
Client Service: 852 3551 3077

Releasing Office:  
Moody's Investors Service Singapore Pte. Ltd.  
71 Robinson Road #05-01/02  
Singapore, 068895  
Singapore  
JOURNALISTS: 852 3758 1350  
Client Service: 852 3551 3077

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